

# Effects of Benefit Rate Reduction and Changes in Entitlement (Bill C-113) on Unemployment, Job Search Behaviour and New Job Quality

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## Purpose

This brief summarizes the study that Professor Stephen Jones of McMaster University prepared for HRDC. The study is a component of a major evaluation of the UI regular benefits program in Canada. It focuses on estimating the impacts of Bill C-113's benefit rate reduction and changes in entitlement on individuals' unemployment experiences, job search behaviour, and the quality of new jobs subsequent to employment separations. Its goal is to ascertain whether or not the legislative changes have indeed improved the labour market performances of individuals as originally expected by policy-makers.

In order to accomplish this goal, the author uses a variety of statistical/econometric methods to compare the labour market performances of two groups of individuals: Cohort 1 (the "before" group in this note) includes people who were subject to the more generous UI provisions prior to Bill C-113, and Cohort 2 (the "after" group) consists of individuals regulated by the less generous UI provisions after Bill C-113 became official. The information for the

empirical work is based on the data collected by the Canadian Out of Employment Panel survey (COEP), conducted by Ekos Research Associates on behalf of HRDC.

## Background

In April 1993, Bill C-113 introduced two important changes to Canada's regular unemployment insurance system: (1) voluntary quitters without just cause were disentitled from UI receipt, and (2) the benefit replacement rate was cut from 60 to 57 percent of insurable earnings for UI recipients. Obviously both changes could affect the labour market behaviour of those individuals who experience a job separation.

This study is an integral part of a large project that attempts to quantify the labour market impacts of Bill C-113. The present report summarizes the influence of the UI legislative changes on the labour market activities of those individuals who separated from their jobs. The other parts of the project, reported in separate documents, deal with "the effect of voluntary quit disentanglement on UI takeup



rates", "income and living standards during unemployment", and "the interaction between UI and social assistance".

## Data and Methodology

Professor Jones, along with his colleagues (Professors Martin Browning and Peter Kuhn), has been involved in the design of the Canadian Out-of-Employment Panel survey from the outset. The COEP is a survey of individuals separating from jobs, designed to supplement existing administrative data. It is of particular relevance to the evaluation of Bill C-113, because the data are drawn from two cohorts. Cohort 1 includes individuals who experienced a job separation between January 31 and March 13, 1993, and Cohort 2 consists of workers who separated from their jobs between April 25 and June 5, 1993. Because the data are similar to those collected from random samples of program participants and non-participants of a real social experiment, they afford the author a chance to use the information to gauge the impacts of the policy changes.

The study consists of primarily three empirical investigations: (i) Bill C-113 on unemployment experience, (ii) Bill C-113 on job search efforts, and (iii) Bill C-113 on new job quality. The three analytical components are, however, not mutually independent of each other. The findings of one inquiry often shed some light on others. For example, the study's estimate of job search behaviour's effects on unemployment duration is an econometric exercise that bridges two analytical components.

The study extensively uses descriptive statistics and econometric methods, including the Cox proportional hazard function, Weibull regression, dichotomous and ordered probit models, and ordinary least squares regression. In the estimated equations, the author explores a variety of specifications to control for the influence that may exert different pressures on the individuals of the two cohorts (i.e., the "before" group whose members were subject to the more generous UI provisions, and the "after" group whose members faced more stringent UI regulations.) Thus the author is theoretically in a position to gauge the impacts of UI legislative changes on individuals' labour market activities without mixing them with the effects of other exogenous factors.

## Key Findings

Despite a substantial amount of statistical/econometric work, the study finds the impacts of Bill C-113 on individuals' labour market behaviour not particularly persuasive. When the unemployment experiences of the Cohort 1 members (who were subject to the more generous legislation prior to Bill C-113) are compared with those of the Cohort 2 individuals (who were susceptible to the less generous UI provisions of Bill C-113), members of the former group usually performed better than their counterparts of Cohort 2. For example, after the individuals separated from their jobs for 23-29 weeks, the proportion of re-employment for voluntary quits and dismissals was 30.9 per cent for Cohort 1 and 21.3 per cent for Cohort 2. This general conclusion holds for the results of simple descriptive statistics and for the



findings of formal analyses that use elaborate econometric methods and a variety of specifications to account for the effects of exogenous forces other than legislative changes. Moreover, although the quantitative estimates for different groups of individuals (men, women, voluntary quits, dismissals, people unemployed because of shortage of work, and those separated from their jobs for other reasons) do differ, they do not change the conclusion mentioned.

Since these results seem the reverse of what intuition may suggest, they may present an interpretation problem to the reader. The author briefly discusses the literature, and concludes that the results of this study may be consistent with the weak behavioral effects previously reported. He also suggests that the empirical findings might have been partly influenced by data problems, including the data's inadequate controls for seasonality and/or secular change during the sample period, the sample size not being large enough to capture subtle policy effects, and the relatively small benefit rate change introduced by Bill C-113. Based on this rationale, he considers assessing Bill C-113 as "having negligible effects on individuals' re-employment chances and unemployment durations" a conservative but fair conclusion.

Similarly, there exists little evidence that Bill C-113 has affected the job search efforts of individuals. The members of the "before" and "after" Bill C-113 cohorts'

search inputs (including search hours per week, search expense per week, and self-reported reservation wages at various points during an unemployment spell) display no significant difference whether other factors are controlled for or not. Moreover, when these search inputs are included in the unemployment duration model as explanatory variables, Bill C-113's impact on unemployment duration remains negligible.

The study has various measures of new job quality. The econometric analysis of objective measures of new job quality shows that, once the effects of other relevant factors such as age, educational attainment, marital status, province of residence, etc. have been accounted for, Bill C-113 can no longer claim to have systematic impacts on individuals' wages and hours worked. With respect to subjective measures of self-reported job satisfaction, the legislative changes do have noticeable effects on individuals. The information for this part of the econometric work (an ordered probit model) comes from the answers to the COEP's question on individuals' own subjective evaluations of their post-ROE (Record of Employment) jobs relative to their pre-ROE employment. Members of the "after" Bill C-113 group were generally less happy with their post-unemployment jobs than their "before" Bill C-113 counterparts. Thus the members of Cohort 2 were more willing to accept the less desirable jobs than their Cohort 1 counterparts as expected.

## Biographical Notes

**Stephen Jones** is currently an Associate Professor of Economics at McMaster University. His primary fields of research and teaching interest include: labour economics; economic theory; anthropological, psychological and sociological approaches to economics; and econometrics. His research results in labour economics have appeared in many scholarly and professional journals.

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Copies of the full technical report (when finalised) and further copies of this summary are available from:

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